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Contacts

Sam Feldman-Crough +1.415.274.1706
Analyst
samuel.feldman@moodys.com

Patrick Liberatore +1.415.274.1709
AVP-Analyst
patrick.liberatore@moodys.com

Idaho Bond Bank Authority

Update to credit analysis

Summary

Idaho Bond Bank Authority (Aa1 stable) is an exceptionally strong program that issues debt to fund loans to local governments. The bonds are backed by the state's sales tax pledge, the revenues of which provide excellent coverage, even when including all annual debt service guaranteed by the state's sales tax revenues. The healthy credit profile is also supported by well-developed program mechanics for monitoring the local government borrowers and ensuring timely payment of debt service.

Credit strengths

» Multiple layers of security and monitoring promote full and timely payment of debt service

» State sales tax revenues, a major state resource, demonstrate strong recent growth

Credit challenges

» State's sales tax pledge also backs the Idaho School Bond Sales Tax Guaranty Program (Aa1)on a parity basis, resulting in increased, yet still quite healthy, leverage of a primary state revenue stream

» Moderate borrower concentration, though it is expected to decline over time

Rating outlook

The stable rating outlook reflects our expectations for continued solid coverage of outstanding debt service by sales tax revenues, and strong monitoring practices of program participants.

Factors that could lead to an upgrade

» Significant strengthening of debt service coverage by state sales tax revenues would enhance bondholder security

» Substantially reduced borrower concentration supports revenue diversity pledged for debt service

Factors that could lead to a downgrade

» Significant additional leveraging of state sales tax revenues would reduce available resources to support debt service

» Substantial decline in state sales tax revenues would pressure debt service coverage

Key indicators

Exhibit 1

Idaho Bond Bank Authority					
Credit Background					
Pledged Revenues	State Sales Taxes				
Legal Structure					
Additional Bonds Test	5.00				
Open or Closed Lien	Open Lien				
Debt Service Reserve Fund Requirement	No DSRF				
MADS Coverage					
2017 MADS Coverage (x)	7.0x				
Trend Analysis					
	2013	2014	2015	2016	2017
Debt Outstanding ($000)					310,667
Revenues ($000)	1,313,372	1,369,522	1,444,781	1,580,542	1,643,649
Annual Debt Service Coverage (x)					7.0x

2017 debt outstanding reflects total post-issuance debt; annual debt service coverage is an estimate using maximum annual debt service (in fiscal 2019) of all debt guaranteed by the state's sales tax pledge.
Source: Moody's Investors Service

Profile

The Idaho Bond Bank program was established by a series of legislative actions and voter approval. The legislature approved an amendment to the constitution and voters approved creation of the Idaho Bond Bank and the pledge of state sales taxes in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act to provide a mechanism for financing the infrastructure needs of local governments.

Detailed credit considerations

Tax base and nature of pledge: Idaho's economy is strong which supports pledged sales taxes

Idaho's economy maintained above-average growth throughout 2017, even with some moderation in the pace of improvement. We expect Idaho's expansion will moderate in the near term, but the state will remain above-average performer, according to Moody's Analytics. Strong population and housing growth and a favorable business climate will continue to allow Idaho to outperform other states. The application of sales and use taxes is broad across goods categories and the statewide tax rate has been steady at 6% since October 2006.

The state's pledge to pay debt service on the bonds using sales tax revenues, in the event the underlying participants do not pay, is subordinate only to the state's tax anticipation notes (TAN) (MIG 1) issued in annual amounts of as much as $500 million in recent years. However, the state's notes are secured by additional revenue streams that include individual and corporate income taxes and the state's full faith and credit pledge.

Additionally, the state's pledge in the Bond Bank Authority program is on parity with the Idaho School Bond Sales Tax Guaranty Program that provides a credit enhancement to an estimated $1.7 billion in debt service on outstanding general obligation bonds issued by school districts.

Debt and legal covenants: excellent mechanics of bond bank with limits on program capacity

The Authority's intercept mechanism and the state's sales tax pledge have never been required to support the bond bank's debt service payments, and program mechanics provide multiple layers of security and monitoring to promote full and timely payment of debt service. Debt service payments for the Authority's bonds are due semiannually in March and September, and participants in the program are required to pay the bond bank's trustee 15 days prior to the debt service due date. The authority monitors the payments and has excellent mechanisms for ensuring payments are made at or before the 15-day window. If a borrower's debt service payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. If funds are still insufficient for debt service within five days of the payment date, the state treasurer will transfer monies representing state sales tax collections from the state's general fund sufficient to fulfill any remaining shortfall in debt service requirements. The transfer does not require legislative pre-approval nor appropriation, an important credit strength.

Each participant in the program is required to execute a loan agreement with the Authority to provide funds and to make payments on their respective loans. There are no cross-default provisions across the loan agreements, so participants are not liable for the failure of any other participant to make their respective loan payments. To enhance the bond bank's governance, the Authority's board continues to enforce improved disclosure requirements for underlying borrowers. Recent years have seen a 100% success rate in ensuring surveillance requirements are met.

The Authority also requires bond bank participants to meet certain standards that strengthen the security of their respective pledges. General obligation pledges require local voter approval; certificates of participation require judicial confirmation or voter approval prior to issuance, and must have a first lien security on pledged revenues; enterprise revenue pledges are required to have a first lien pledge of net revenues, along with rate covenants and additional bonds tests of 1.25 times net revenues. Borrowers from the bond bank appear to be of moderate and satisfactory credit quality, though the majority of loans are attributable to entities not rated by Moody's.

The Authority's board places a limit on the amount of debt secured by the bond bank and the school guarantee programs, both of which rely on the state's sales tax revenues. The limit caps bond bank issuance where maximum annual debt service of the program reaches 20% of the most recently audited state sales tax collections (similar to a 5-times additional bonds test). Similarly, the Idaho School Bond Sales Tax Guaranty Program adopted a policy that essentially mirrors the Authority's debt capacity policy. Finally, Authority policy restricts an individual participant's loans to no more than 20% of total outstanding debt. We view these limitations as a prudent step in governing the pace and amounts of future bond bank issuances, although approaching the limit of 20% of sales tax revenues over the long-term would result in significant leveraging of the state's primary revenue source. However, an important mitigant is that a large portion of the underlying borrowers (25% post-issuance) have secured their Authority loans with an unlimited property tax pledge. The remaining underlying pledges are primarily secured by sewer system revenues (49%), water system revenues (17%), and joint utility system revenues (4%), with additional small amounts in a few other types of either general government or enterprise revenue pledges.

DEBT STRUCTURE

Maximum annual debt service of the Authority's guaranteed debt is $34.2 million in 2019, and debt service declines steadily to $3.8 million in 2040, with expected final maturity in 2048 at $798,247.

DEBT-RELATED DERIVATIVES

The Authority has no debt-related derivatives.

PENSIONS AND OPEB

The Authority has no pension or OPEB liabilities.

Debt service coverage and revenue metrics: healthy debt service coverage supported by revenue growth

Based on fiscal 2017 financials, gross state sales tax revenues (at $1.6 billion) provided an ample 48-times coverage of the bond bank's peak debt service in fiscal 2019 and a still sizable 10-times coverage of peak combined debt service for Bond Bank loans and school districts' guaranteed debt.

Considering the $500 million of TANs, if paid using sales tax revenues alone, maximum annual debt service (MADS) coverage of all guaranteed debt is a still healthy 7-times revenues. Though continued improvement in sales tax revenues should improve coverage levels, additional issuances from the bond bank and school bond guarantees will likely hold debt service coverage at the same levels.

Post-issuance, concentration among Bond Bank participants will decrease some, with the top five participants representing 46% of outstanding loans. The participant with the largest amount of debt outstanding is Twin Falls, ID at 19.7% of outstanding loans. The Authority has a policy limiting a single participant to no more than 20% of outstanding loans.

Revenue growth will continue to be strong as Idaho's economy continues to grow. Since 2010, sales tax revenues have grown an average of 5.6% per year, though 2017 receipts grew below the average at a still-healthy 4%. Considering MADS is in fiscal 2019, we expect coverage will continue to be healthy on even modest sales tax growth.

Management and governance: strong management includes surveillance of borrowers

Under the program, each series of bonds is secured by pledges of the underlying borrowers. The security for each underlying borrower's loan agreement is typically either a general obligation ad valorem property tax, property tax assessments, certificates of participation, or net enterprise net revenues. The bond bank program includes a credit review process and minimum credit criteria for potential borrowers that involves confirming the legal authority of their pledge to incur debt, evaluating their ability to meet debt service coverage thresholds, and reviewing the operating impact of debt issuance on potential participants.

The Authority's management implemented excellent surveillance and monitoring processes to ensure borrowers make timely and complete debt service payments. The strong mechanics and stable management are positive credit factors.

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